

Oklahoma Peanut Commission

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**Statement Before the
Subcommittee on Conservation, Credit,
Rural Development, and Research
U.S. House of Representatives**

Field Hearing

El Reno, Oklahoma

“To Discuss Issues Regarding Farm Bill Legislation”

September 18, 2006

Presented By:

Les Crall

**District 3 Commissioner
Weatherford, Oklahoma**

Mr. Chairman and Members of the Subcommittee:

I am Les Crall, a peanut producer from Weatherford, Oklahoma; here today on behalf of the Oklahoma Peanut Commission....the state's commodity board whose mission is "to enhance the viability of all Oklahoma peanut producers". Thank you for conducting this hearing and the invitation to comment on the affect of the 2002 Farm Bill on peanut producers and how the next Farm Bill might address the challenges facing our industry.

An Experiment under Review

The Peanut Provisions of the 2002 Farm Bill was a drastic departure from the 'supply/management' programs authorized by Congress and administered by USDA during the previous four decades of farm legislation. In preparation of drafting new farm legislation it appears appropriate Congress evaluate the affects of the "peanut marketing loan" program, now in its fifth year.

A Changing Landscape

The entire U.S. peanut industry was affected by the peanut provisions of the 2002 Farm Bill, arguably, some good and some bad.

Farmers quickly learned the opportunity for profit under a marketing loan program would demand sustained exceptional yields. The result of the Legislation has been a dramatic shift in production areas in every peanut state. Thousands of 'traditional' producers nation wide have been squeezed out of business or have drastically reduced acreage because the cost of producing exceptional yields exceeds any profit potential.

On the other hand, producers with 'fresh' ground (without the cost of controlling disease, insect and weeds) have been able to produce yields high enough to offer them a short-term profit. Over time, these new producers will face the ultimate challenge....how to stay in business.

Results....The Subcommittee should be aware Oklahoma is one of several states adversely affected by the '02 Bill. With limited 'fresh' ground available, peanut acreage in the state has dropped from 80,000 in 2001 to less than 22,000 acres today, the lowest since 1927. A farm producing less than 4,000 pounds per acre in Oklahoma is non-profitable under the '02 Legislation. In 2001 the state average yield was 2,600#/A. Thus, hundreds of farms all across southern Oklahoma have abandoned peanut production as a livelihood, idling substantial investments of specialized equipment non-adaptive to other production systems.

Loss of acres has resulted in loss of infrastructure....50% of the state's peanut buying points (marketing & storage facilities) and shelling plants have closed since the implementation of the '02 Bill. Transportation costs to remaining facilities, has become a major factor affecting planted acres.

Entire communities have suffered economic losses as the value of peanut production dropped from \$55 million in 2001 to only \$17 million in 2005, in spite of the fact Oklahoma producers set 'per acre' record yields the past three years.

Without a supply management program, farmers in many states initially increased plantings, searching for a crop 'that will work'; resulting in a record surplus. The entire industry now faces a near disastrous situation....too many peanuts and **no market**.

Has the Program Worked?

The 'corner stone' of the '02 peanut legislation was the establishment of a marketing loan program that had long benefited producers of other program crops. This new concept for peanuts was designed to provide producers an essential level of cash flow at harvest via a non-recourse \$355/ton loan. Thus allowing the producer to orderly market his crop; which was pledged as collateral for the USDA loan. When the producer found a favorable price in the market, the crop could be sold and the USDA loan repaid.

The marketing loan program also allows the producer to fully repay the loan at a reduced amount when the commodity price in the market is lower than the loan rate established by Congress. If the repayment rate is greater than the prevailing market price, the producer can exercise his option to forfeit his crop to USDA under the non-recourse provision. Additionally, the farmer is given the option of foregoing the loan and selling the crop into the commercial market and taking a loan deficiency payment (LDP), which reflects the difference between the loan rate and the repayment rate.

How has the marketing loan worked after 5 years? Large government loan forfeitures and huge, price-depressing stocks should answer the question. USDA's 2006 planted acres report reflects a unified rejection by producers via a 30% cutback in peanut plantings across the peanut belt. The Southwest is no exception, with Oklahoma cutting 30% and Texas, the nation's second largest producer, off more than 42% from a year ago.

Farmers must have a market above the \$355 loan. With escalating production costs of fuel, transportation, irrigation and pest control farmers can not afford to grow peanuts at loan price. Ironically, the '02 program provides peanuts to buyers at or below the loan price; resulting in only limited marketing options for producers much above the loan. Thus, **the marketing loan has become the market ceiling.**

Time for a Fix

National Posted Price – Loan Repayment Rate: The reality is; peanuts are different than other commodities. Unlike wheat or feed grains, peanuts do not have a market price mechanism to allow a marketing loan & repayment program to function honestly. There is no peanut futures market; no daily market reports; no accurate or transparent method of price discovery.

USDA/AMS announced on September 1, 2006, that due to consolidation in the shelling industry and the increasing use of non-disclosure contracts, the agency can no longer accurately reflect prices for shelled peanuts. Updating of the National Posted Price report used for peanut loan repayment rates will now be attempted from survey data published weekly by USDA/NASS. A problem lies with price discovery....Congress should fix!

Smart-Card Technology was scrapped in the '02 Bill. Prior to the new Bill, USDA used 'state-of-the-art' computer chip record keeping via the producer smart card. FSA effectively managed the peanut program at the local level with the use of the smart card to record certified planted & harvested acres, actual production records by farm number reflecting the peanut type, grade & value; and disposal of the crop. This record keeping device was the envy of other commodities. Without it, farmers must rely on paper records for production history and other requests by FSA. Without it, no one accurately knows how many Spanish, Runner, Virginia or Valencia peanuts were grown in the U.S.; nor the crop value, quality or disposition. Without it, important crop statistics are based upon industry surveys. The Smart-Card has a proven record...Congress should reinstate!

Peanut Handling & Storage is an important provision of the current program necessary to allow orderly marketing of the crop. In contrast to other program commodities, peanuts are a semi-perishable crop requiring adequate storage to maintain their viability as an edible commodity. The program provision was designed to protect the producer from costs related to storage and handling. Should in fact, the producer be required to bear that burden; the net result would be a \$300-\$310/ton peanut and the end of peanut production in Oklahoma! Government payment to handlers to cover these costs expire August 1, 2007.....Congress should extend the payments for the 2007 crop and the duration of the next farm bill!

Payment Limitations is perhaps one of the most debated and most misunderstood issues. USDA payments are based upon an equitable risk per unit. An acre is an acre, no matter the size of the farm operation. For each unit of risk (large or small) the producer is equal. The fact that a family farm has incorporated for tax, management or other reasons should not be a basis for penalty. Payment limitations....Congress should not change!

Cost of Production adjustments were historically a provision of previous peanut legislation, not included in the '02 bill. Without a mechanism to annually review and adjust up or down program payments, producers become locked in a 'fixed' price system for the life of the Bill. USDA has the ability to survey production costs that could be annually adjusted via changes up or down to the program 'Target Price'. Escalating input costs such as fuel, fertilizer and pest control warrant a cost of production adjustment to maintain the viability of the producer.....Congress should consider an annual target price cost of production adjustment!

Conclusion

I want to thank the Subcommittee on behalf of the Oklahoma Peanut Commission and the state's peanut producers for the opportunity to make suggestions for your consideration in

future farm legislation. We thank the Subcommittee for conducting this hearing in Oklahoma, a proud state soon to celebrate our Centennial and our agricultural heritage. We look forward to working with you in the development of an improved peanut program that enhances the viability of our producers and carries out the intent of Congress.

Committee on Agriculture
U.S. House of Representatives

Witness Resume

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Testifying on behalf of the Oklahoma Peanut Commission
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Owner/operator of a fourth generation farming operation in Custer County. Farming wheat, grain sorghum, hay, peanuts and raise cattle.

Bernhardt Professor in the School of Business at Southwestern Oklahoma State University. Teaching Business Law and Cost Accounting. Faculty member since 1985; continuously since 1992.

Member of the Oklahoma Bar Association and Oklahoma Society of CPA's

Appointed to a two-year term on the Oklahoma Peanut Commission in 2004 by Gov Brad Henry; served as Vice-Chairman. As a member of the Executive Committee, played key role in development of peanut research & variety development initiatives. Part of negotiating team for FY-06 & FY-07 Congressional funding for The Center for Peanut Improvement in Stillwater.

Re-appointed to the Oklahoma Peanut Commission for a three-year term in 2006 by Gov Brad Henry. OPC representative for Federal peanut policy on United Peanut Alliance.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Leslie D. Crall
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Organization you represent (if any): Oklahoma Peanut Commission
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1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: - None - Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: - None - Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: _____

Signature: Leslie D. Crall

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two preceding fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.